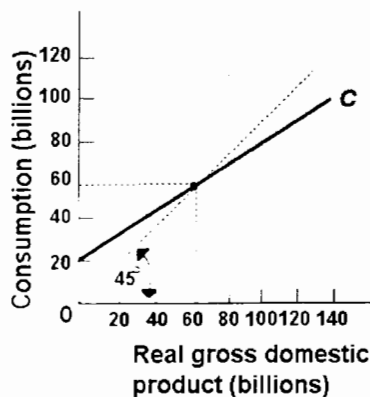


1. The equilibrium price level and level of real output occur where:
 - A) real output is at its highest possible level.
 - B) exports equal imports.
 - C) the price level is at its lowest level.
 - ☒ D) the aggregate demand and supply curves intersect.

2. Growth is advantageous to a nation because it:
 - A) promotes faster population growth.
 - ☒ B) lessens the burden of scarcity.
 - C) eliminates the economizing problem.
 - D) slows the growth of wants.

Use the following to answer question 3:



3. The above figure suggests that:
 - A) consumption would be \$60 billion even if GDP were zero.
 - B) saving is zero at the \$120 billion GDP.
 - ☒ C) as GDP increases, consumption decreases as a percentage of GDP.
 - D) as GDP increases, consumption decreases absolutely.

4. The equilibrium GDP is the level of domestic output:
 - A) where consumption equals saving.
 - B) where actual investment equals consumption.
 - ☒ C) which is sustainable.
 - D) where full employment exists.

5. Cost-of-living adjustment clauses (COLAs):
- A) invalidate the "rule of 70."
 - B) apply only to demand-pull inflation.
 - C) increase the gap between nominal and real income.
 - ☒ D) tie wage increases to changes in the price level.
6. Economic well-being is understated by growth rates because they:
- A) account for pollution expenditures.
 - ☒ B) don't account for improvement in products.
 - C) account for illegal activity.
 - D) don't account for the slowdown in productivity.
7. In comparison with the consumption schedule, the investment schedule is:
- A) relatively stable.
 - B) relatively unstable.
 - C) upsloping.
 - ☒ D) independent of the price level.
8. Other things equal, an improvement in productivity will:
- A) tend to increase the equilibrium price level.
 - B) shift the aggregate supply curve to the left.
 - ☒ C) shift the aggregate supply curve to the right.
 - D) shift the aggregate demand curve to the left.
9. The determinants of aggregate supply:
- A) are consumption, investment, government, and net export spending.
 - B) explain why real domestic output and the price level are directly related.
 - ☒ C) explain the three distinct ranges of the aggregate supply curve.
 - D) include input prices and resource productivity.
10. As disposable income increases, consumption:
- A) and saving both increase.
 - B) and saving both decrease.
 - ☒ C) decreases and saving increases.
 - D) increases and saving decreases.

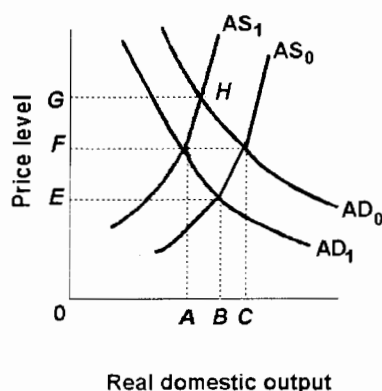
11. An expected rise in the rate of inflation for consumer goods will:
- ☒ A) decrease aggregate demand.
 - ☐ B) increase aggregate supply.
 - ☐ C) increase aggregate demand.
 - ☐ D) decrease aggregate supply.
12. To be officially unemployed a person must:
- ☒ A) be in the labor force.
 - ☐ B) be 21 years of age or older.
 - ☐ C) have just lost a job.
 - ☐ D) be waiting to be called back from a layoff.
13. If at some level of GDP the economy is experiencing an unintended decrease in inventories:
- ☐ A) the aggregate level of saving will decline.
 - ☐ B) the price level will fall.
 - ☐ C) the business sector will lay off workers.
 - ☒ D) domestic output will increase.
14. The level of aggregate expenditures in the private closed economy is determined by the:
- ☒ A) expenditures of consumers and businesses.
 - ☐ B) intersection of the saving schedule and the 45-degree line.
 - ☐ C) equality of the MPC and MPS.
 - ☐ D) intersection of the saving and consumption schedules.
15. Other things equal, the real interest rate and the level of investment are:
- ☐ A) related only when saving equals planned investment.
 - ☐ B) unrelated.
 - ☐ C) inversely related.
 - ☒ D) directly related.
16. At the economy's natural rate of unemployment:
- ☒ A) the economy achieves its potential output.
 - ☐ B) there is only a relatively small amount of cyclical unemployment.
 - ☐ C) only frictional unemployment exists.
 - ☐ D) none of the above are true.

17. In the aggregate expenditures model:
- A) consumption rises, but saving declines, as disposable income rises.
 - B) saving varies inversely with the profitability of investment.
 - ☒ C) saving varies directly with the level of disposable income.
 - D) saving is inversely related to the rate of interest.
18. The presence of discouraged workers:
- A) increases the size of the labor force, but does not affect the unemployment rate.
 - B) reduces the size of the labor force, but does not affect the unemployment rate.
 - ☒ C) may cause the official unemployment rate to understate the amount of unemployment.
 - D) may cause the official unemployment rate to overstate the amount of unemployment.
19. A decrease in consumer spending can be expected to shift the:
- ☒ A) aggregate expenditures curve downward and the aggregate demand curve leftward.
 - B) aggregate expenditures curve upward and the aggregate demand curve leftward.
 - C) aggregate expenditures curve downward and the aggregate demand curve rightward.
 - D) aggregate expenditures curve upward and the aggregate demand curve rightward.
20. When the price level decreases:
- ☒ A) the demand for money falls and the interest rate falls.
 - B) holders of financial assets with fixed money values decrease their spending.
 - C) holders of financial assets with fixed money values have less purchasing power.
 - D) there is a decrease in consumer spending that is sensitive to changes in interest rates.
21. The relationship between the size of the GDP gap and the unemployment rate is:
- ☒ A) direct.
 - B) inverse.
 - C) undefined.
 - D) direct during recession, but inverse during expansion.
22. The achievement of full employment through time will:
- A) diminish labor productivity.
 - B) reduce the level of investment as a percentage of GDP.
 - ☒ C) increase the rate of growth of real GDP.
 - D) have no impact on the rate of growth of real GDP.

23. A large negative GDP gap implies:
- A) an excess of imports over exports.
 - B) a low rate of unemployment.
 - ☒ C) a high rate of unemployment.
 - D) a sharply rising price level.

24. A decrease in per unit production costs will shift the aggregate supply curve leftward.
- A) True
 - ☒ B) False

Use the following to answer question 25:



25. Refer to the above diagram. If the aggregate supply curve shifted from AS_0 to AS_1 , we could say that:
- A) aggregate supply has increased, equilibrium output has decreased, and the price level has increased.
 - ☒ B) aggregate supply has decreased, equilibrium output has decreased, and the price level has increased.
 - C) an increase in the amount of output supplied has occurred.
 - D) aggregate supply has increased and the price level has risen to G.
26. Economic growth is best defined as an increase in:
- ☒ A) either real GDP or real GDP per capita.
 - B) nominal GDP.
 - C) total consumption expenditures.
 - D) wealth in the economy.

27. Achieving aggregate equilibrium in the economy is indicated by:
- A) an equality of saving and planned investment.
 - B) an equality of aggregate expenditures and domestic output.
 - C) the absence of unplanned investment or disinvestment.
 - ☒ D) all of the above.
28. Which one of the following would not shift the aggregate demand curve?
- A) a change in the price level
 - ☒ B) depreciation of the international value of the dollar
 - ☒ C) a decline in the interest rate at each possible price level
 - ☒ D) an increase in personal income tax rates
29. The MPC for an economy is:
- A) the slope of the consumption schedule or line.
 - B) the slope of the savings schedule or line.
 - ☒ C) 1 divided by the slope of the consumption schedule or line.
 - D) 1 divided by the slope of the savings schedule or line.
30. Suppose that nominal wages fall and productivity rises in a particular economy. **Other** things equal, the aggregate:
- A) demand curve will shift leftward.
 - ☒ B) supply curve will shift rightward.
 - C) supply curve will shift leftward.
 - D) expenditures curve will shift downward.